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Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Simplification of the	)	CC Docket No. 92-296
Depreciation Prescription	)	
Process	)	

COLORADO PUBLIC UTILITIES COMMISSION REPLY COMMENTS ON FCC ORDER 93-492

The Colorado Public Utilities Commission (CPUC) submits the following reply comments in the Federal Communications Commission (FCC) Docket No. 92-296. These reply comments are in response to FCC Decision No. 93-492, adopted November 12, 1993, requesting comments on the ranges and rate categories proposed under the Basic Factor Range (BFR) depreciation simplification plan which was adopted pursuant to the Report and Order in CC Docket No. 92-296, released on October 20, 1993.

Although the CPUC is under no legal obligation to follow or use FCC-prescribed depreciation rates or procedures, the CPUC has generally attempted to maintain as much consistency with the FCC on these issues as possible in order to benefit the industry and the public interest. With some exceptions or clarifications, the CPUC generally believes that the rate and range proposals set forth in FCC Decision No. 93-492 are reasonable pursuant to the policy reasons and objectives of the FCC as enunciated in the Report and Order. However, the following comments are not meant to imply that the CPUC is endorsing or accepting the BFR for determining depreciation expenses at the intrastate level.

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Comments on the Proposed Ranges

In review of the comments of the Local Exchange Carriers (LECs), most notably U S West Communications, Inc. (USWC), it appears that the industry is attempting to re-litigate the initial Report and Order in this docket, rather than simply responding to the proposals put forth for comment by Decision No. 93-492. This is being done by the universal and very uniform suggestions of the LECs[1] to broaden the ranges for the basic factors. If the FCC heeds the industry suggestions, it will essentially be implementing the rejected Price Cap Carrier plan in the guise of the BFR plan. In presenting their uniform arguments on the issue of broadening the ranges, the LECs argue that the projected service estimates must be based on "forward looking" data, presumably such as found in the reports prepared by Technology Futures, Inc. (TFI) at the behest and sponsorship of the LECs.

In theory, the argument for life estimates based on "forward looking" data appears enticing. The industry has invested time and money in refining such life forecasting techniques as the Fisher-Pry technology substitution model. The CPUC certainly values such additional information regarding the probable service life of assets. However, for past depreciation prescription reviews in

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[1] See, Comments of U S West Communications, Inc. (dated December 17, 1993), at pages 7-8; Comments of Southwestern Bell Telephone Company (dated December 17, 1993), at page 5; Comments of BellSouth Telecommunications, Inc. (dated December 17, 1993), at page 3; etc.

which estimates proposed by USWC were based on technology substitution models, experience has shown that the prior estimates do not usually correspond to the actual consumption of the plant investment. In other words, the industry projected rate of retirements are usually much more optimistic than the amount of retirements that actually occur.

As an example of the fact that a discontinuity sometimes exists between the expected versus the actual rate of retirements of the LECs, the FCC should note that the amount of investment in Aerial Wire (Account 2431) in Colorado has actually increased by about 22 percent since 1986.[2] In 1987, a massive (approximately $300 million) investment program to update and improve outside plant facilities in rural Colorado was begun by USWC in response to regulatory incentives provided by the CPUC. Since most investment in this account is in these rural areas, it would seem that this technologically obsolete asset should be in rapid decline, if not removed from the books of USWC by this time, because of the accelerated rural investment program of USWC. This account was recognized decades ago as a "dying" investment account by the FCC.[3] However, the current investment amount in Colorado is still more than 50 percent of the investment that existed in this account in the mid-1970's. In this instance, the investment has certainly long outlived the expectations of the regulators, as well as USWC.

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[2] See, USWC Colorado 1994 Depreciation Rate Study.

[3] The FCC has never prescribed ELG treatment for this account.

Similarly, there is a discrepancy between the 10 year life estimate proposed by USWC for the Digital Switching Account (Account 2212) and the magnitude of actual retirements for this account from the latest USWC depreciation prescription study for Colorado. Approximately 80 percent of the investment in the early 1980's is still in service. On the basis of a 10 year life, this percentage should be much less if this life estimate was appropriate for this account in the past.

The CPUC believes the FCC would be ill advised to adopt the projected service life estimates determined by TFI without close scrutiny and adjustment to account for the typical discrepancies between the projections and actual retirement schedules of the LECs. In the same vein, the CPUC does not believe that the argument specifically advanced by USWC[4], that the service lives adopted for financial reporting purposes must be the same as those adopted for regulatory purposes, is credible. Although other LECs also imply that competition is compelling shorter service lives[5], the gist of this argument is that the current regulated environment must make the LECs "whole" in terms of the shorter service lives that technology (really service provisioning) leapfrogging competitors may force upon the LECs in the future. To now use "competition" as the justification for shorter service lives could

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[4] See, Comments of U S West Communications, Inc. (dated December 17, 1993), at page 8.

[5] See, Comments of the United States Telephone Association (dated December 17, 1993), at pages 3-4.

add to the immediate rate or earnings sharing burdens of existing captive customers without assuring commensurate service improvement and would likely impair the chances for others to compete economically in the future.

The CPUC believes that the proposed ranges are derived in a reasonable manner. It appears that the ranges are generally greater than the one standard deviation around the mean of basic factors underlying currently prescribed depreciation rates as discussed in the original Report and Order so as to include a majority of the LECs within the range. Since the LECs are still free to provide a detailed study for any account that currently lies outside of the BFR ranges, LECs can continue to seek different parameters than those in the proposed ranges. (The recent USWC 1994 depreciation prescription study for Colorado appears to have submitted study detail for all accounts.) This provides flexibility to the LECs in order to adjust to the implementation of the BFR.

Comments on the Accounts to be used in the BFR for 1994

The LECs almost uniformly argue that the BFR treatment should be expanded immediately to include all accounts.[6] The CPUC believes

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[6] See, Comments of U S West Communications, Inc. (dated December 17, 1993), at page 2; Comments of Southwestern Bell Telephone Company, at page 3; Comments of Bell Atlantic (dated December 17, 1993), at pages 1-2; etc.

that the FCC is proceeding in a reasonable manner to implement the BFR with the resources available to it at this time. The remaining accounts are those with the greatest investment and the most potential impact on the rates or potential sharing of earnings with the public. It would be prudent for the FCC to be deliberate in its decision and allow its staff time to properly evaluate this issue, particularly for such accounts as Buildings (Account 2121) for which the BFR parameters may not be directly comparable across the LECs.

USWC and other LECs comment that roughly 70 percent of their current investment is excluded from the BFR at this time.[7] Of this amount, about 45 to 50 percent, is concentrated in only three accounts: 2212 (Digital Switching), 2232 (Digital Circuit), 2423 (Buried Metallic Cable) for USWC. It may be beneficial to the LECs to continue to separately study these technologically sensitive accounts[8] for the upcoming three year adjustment in the BFR and to satisfy the state regulators that such depreciation expense levels are justified.

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[7] See, Comments of U S West Communications, Inc. (dated December 17, 1993), at pages 2-4; Comments of BellSouth Telecommunications, Inc. (dated December 17, 1993), at page 2; Comments of GTE Service Corporation (dated December 17, 1993), at pages 2-3; etc.

[8] See, Comments of GTE Service Corporation (dated December 17, 1993), page 3.

The CPUC agrees with Southwestern Bell[9] that accounts such as 2211 (Analog Switching) and 2232 (Analog Circuit) which are considered to be "dying" accounts should not be included in the BFR. (The CPUC would also include other accounts, such as Aerial Wire, within this group of dying accounts.) Although effort must be expended to track the retirement patterns for these accounts within the construction plans of the LEC, which is contrary to the intent of the depreciation simplification objective of this docket, this effort provides a fairly accurate means of matching the depreciation of the investment to the retirement plans of the LEC and should be retained by the FCC.

Comments on Establishing Ranges for Rate Categories

The CPUC believes that the FCC proposal to establish ranges for rate categories within the four referenced accounts is reasonable.[10] In Colorado, USWC currently studies these four accounts in terms of rate categories for metallic and non-metallic cable or analog and digital circuit equipment investment. The division between analog and digital circuit equipment has been helpful in estimating lives for these investments. A continued account breakdown in this manner for the BFR should lead to more accurate depreciation rates for the investment.

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[9]See, Comments of Southwestern Bell telephone Company (dated December 17, 1993), at pages 4-5.

[10] These accounts are 2232 (Circuit Equipment), 2421 (Aerial Cable), 2422 (Underground Cable), and 2423 (Buried Cable).

The CPUC agrees with the comments of the Missouri Public Service Commission that the projected service lives of non-metallic cable should be longer than that for metallic cable.[11] For Account 2422 (Underground Cable), the FCC proposes a uniform range for the projected service life of 25 to 30 years for both metallic and non-metallic cable. It might be worthwhile to slightly expand this range and assign a life range from the lowest to the midpoint of the total range to metallic cable and from the mid-point to the highest point of the total range to non-metallic cable.

Although there would be little effect on Colorado, because it largely has fiber in the interoffice network, a further disaggregation of the metallic cable category between interoffice and feeder/distribution facilities may be warranted, if appropriate data is available for estimation of the BFR parameters.[12] Generally, technology changes are first introduced within the interoffice network. Therefore, obsolescence comes more quickly for those facilities than in the loop network.[13]

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[11] See, Comments of the Missouri Public Service Commission (dated December 17, 1993), at page 4.

[12] See, Comments of the New York Telephone Company and New England Telephone and Telegraph Company (NYNEX) (dated December 17, 1993), at page 3.

[13] Although some of the LECs, such as Ameritech at page 5, argue for the same depreciation lives as AT&T, the majority of the LEC investment is in loop plant and end office switches for providing local exchange service. This is equipment and services that AT&T does not routinely deploy. However, the interoffice facilities and tandem switches of the LECs would be more comparable to the operations and investments of AT&T.

Some of the LECs have argued that full study data should not be required if only one of the BFR parameters are not within the range.[14] The CPUC believes this argument may have some merit regarding the Future Net Salvage (FNS) parameter. In review of the 20 accounts in the 1991 USWC Colorado depreciation prescription study which are included in the proposed accounts and ranges contained in the appendix to Decision 93-492, it appears that the projection life is within the range for all accounts. However, the FNS value is outside the range for five accounts. For some of these outliers, there is minimal difference in the depreciation rate when applying the corresponding boundary value in the range or the out-of-range FNS percentage from the depreciation study. It would appear the LEC should have the option to move either to the highest or lowest part of the range for a FNS outlier without submitting a detailed study, if recalculation of the current depreciation rate using the range endpoints stays within some percentage, say 10 percent, of the current depreciation rate. In the next represcription, the LEC would be free to move within the range for that parameter.

Summary and Conclusion

Although the CPUC is under no legal obligation to follow or use FCC-prescribed depreciation rates or procedures, the CPUC has

[14] See, Comments of NYNEX (dated December 17, 1993), at pages 8-10; Comments of Southwestern Bell Telephone Company (dated December 17, 1993), at page 7.

submitted the preceding comments so as to provide the FCC a wide range of perspective on this issue, and to benefit the public interest. The CPUC generally believes that the rate and range proposals put forth within FCC Decision No. 93-492 are reasonable within the policy reasons and objectives of the FCC as enunciated in the Report and Order. However, as is specifically addressed in the preceding comments, there are some exceptions or clarifications to the ranges for the BFR that should be further addressed by the FCC. The CPUC believes that the FCC would be ill advised to adopt ranges for the BFR of the breadth recommended by the LECs as this would simply turn the BFR into the Price Cap Carrier option, which the FCC has already rejected in this docket for good reason.

Respectfully Submitted,

FOR THE COLORADO PUBLIC UTILITIES COMMISSION

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the Comments of the Colorado Public Utility Commission, in Docket 92-296, have been served this 21st day of January, 1994 to the Parties of Record.

Vikki Thomas

January 21, 1994